

December 26, 2006

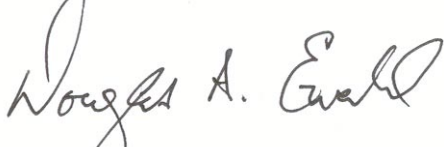
Corporate Income Tax-Bonus Depreciation Deduction. CORPORATE TAXPAYERS THAT ADDED BACK 85% OF THEIR FEDERAL BONUS DEPRECIATION MAY DEDUCT A PORTION OF SUCH ADD-BACK ON RETURNS BEGINNING OR DEEMED TO BEGIN ON OR AFTER JANUARY 1, 2005. CORPORATIONS THAT PREVIOUSLY ADJUSTED THE BASIS OF SUCH ASSETS BECAUSE OF THE BONUS DEPRECIATION ADDED BACK ARE NOT ALLOWED SUCH DEDUCTION.

Advice has been requested on the calculation of bonus depreciation deductions for corporations which were required to add back a portion of their federal bonus depreciation on previous Nebraska returns.

For tax years 2000 through 2005, corporate taxpayers are required by Neb. Rev. Stat. §77-2734.05 to increase federal taxable income by eighty-five percent of any bonus depreciation claimed on their federal income tax returns. For bonus depreciation added back in tax years 2000 through 2002, twenty percent of the total amount previously added back may be subtracted in the first tax year beginning on or after January 1, 2005, and twenty percent in each of the following four tax years. For bonus depreciation added back in tax years 2003 through 2005, twenty percent of the total amount previously added back may be subtracted in the first tax year beginning on or after January 1, 2006, and twenty percent in each of the following four tax years.

Since the amount added back is allowed as a deduction in a later year, no adjustments should have been made to an asset's basis, the depreciation allowed other than bonus depreciation, or the gain or loss on disposition of the asset. Any corporation which modified the basis of its asset(s) due to the bonus depreciation added back and calculated its standard depreciation expense for Nebraska on such modified basis will not be allowed to take the annual deduction for 20% of the bonus depreciation previously added back. The use of such a modified depreciation method for Nebraska results in recovering part of the bonus depreciation added back in each year of the life of the asset beginning in the year the asset was placed in service. Allowing an additional twenty percent deduction for the tax years indicated above would allow the taxpayer to claim the same deduction twice and result in an unintended windfall to the taxpayer.

APPROVED:



Douglas A. Ewald
State Tax Commissioner

December 28, 2006